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Lornex Mining Corporation Ltd.
(Non-Personal Liability)

R. D. ARMSTRONG
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Suite 202, 580 Granville Street
Vancouver 2, British Columbia

July 24, 1967.

OFFER TO SHAREHOLDERS OF ADDITIONAL SHARES FOR SUBSCRIPTION

The Company is offering additional shares of stock to shareholders of record at the close of business on July 31, 1967. The shares are offered in the proportion of one new share for every eight shares owned at \$4.00 per share.

The terms and conditions of the offer are reported in detail in this folder. Shareholders in the United States are requested to note the special provisions which apply in their case.

This issue is intended to raise \$2,009,476 of new capital of which approximately \$1,700,000 will be used to defray the balance of the current estimated cost of Phase II of the exploration programme more particularly referred to on page 4 of this folder, as such programme is now constituted. The balance of the new capital will be used to defray any additional cost of the Phase II programme, for general corporate purposes and further exploration of the Company's properties.

The present estimated cost of Phase II, as now envisaged and if carried through to completion, is \$5,250,000 of which approximately \$2,128,000 had been expended to May 31, 1967. The Company, after the exercise by Rio Algom Mines Limited of all of the options referred to on page 5 of this folder, has approximately \$1,400,000 available for expenditure from May 31, 1967 on Phase II and, on the basis of the Rights being exercised in full, it is anticipated that the Company will have sufficient funds to ensure completion of Phase II as presently constituted.

Rio Algom Mines Limited and The Yukon Consolidated Gold Corporation Limited which own in the aggregate 2,421,892 shares or approximately 60% of the issued and outstanding shares of the Company, have entered into an agreement referred to under the heading Control of the Company on page 5 of this folder to ensure continuity of management of the Company. Each of these companies has indicated that it intends to exercise all of the Rights issued to it.

To ensure the availability of funds to defray the present estimated cost of Phase II of the exploration programme, Rio Algom Mines Limited has agreed to purchase on September 12, 1967 the shares represented by the Rights which are unexercised at the expiration of the subscription period on August 31, 1967.

If you expect to be away during the subscription period, we suggest you make arrangements to ensure that your Rights are either used in subscription or sold on your behalf before the closing day, August 31, 1967.

The Supplemental Information contained in this folder includes particulars with respect to the Company's exploration programme, the purpose of the Rights issue, the Option Agreement and the Purchase Agreement between the Company and Rio Algom Mines Limited and the share interests of the major shareholders of the Company. This folder also includes the unaudited balance sheet of the Company as at May 31, 1967 and a statement of expenditures of the Company to that date.

R. D. ARMSTRONG
President and
Chief Executive Officer

Lornex Mining Corporation Ltd.

(Non-Personal Liability)

GRANT TO SHAREHOLDERS OF RIGHTS TO SUBSCRIBE FOR ADDITIONAL SHARES

Record Date for
Rights
July 31, 1967

Mailing Date for Warrants
On or About
August 4, 1967

Closing Date for
Subscriptions
August 31, 1967

The Company has authorized the issue to its shareholders of Rights to subscribe for additional shares of its capital stock at \$4.00 per share, as follows:

SHAREHOLDERS TO WHOM WARRANTS ARE BEING ISSUED

Shareholders of record at the close of business on July 31, 1967 are granted Rights evidencing the right to subscribe for additional shares in the proportion of one share of stock for each eight shares of stock held by them as shown on the books of the Company on such date. Eight Rights are required to subscribe for each share of capital stock. Subscriptions will be accepted by the Company for full shares only.

The Company does not solicit subscriptions from other than its existing shareholders who are not resident in the United States of America, its territories and possessions, but for the convenience of its shareholders, including those resident in the United States of America, its territories and possessions, the right of subscription evidenced by the Warrant may be sold and transferred by assignment endorsed on the face of the Warrant, and, subject to the provisions of this folder and of the Warrant, the Company will accept subscriptions for full shares from the assignee in substitution for subscriptions by the shareholder assigning the Warrant, upon compliance with the conditions thereof.

EXPIRATION OF RIGHTS

The Rights evidenced by the Warrants and not exercised will expire on August 31, 1967 at the hour of 4 P.M. Pacific Daylight Time after which time the Warrants will be void and of no value.

ISSUE OF WARRANTS

On or about August 4, 1967, a Warrant will be mailed to each shareholder evidencing the total number of Rights to which his shares entitle him.

Because the shares herein referred to are not registered under the United States Securities Act of 1933 and amendments thereto, no subscription will be accepted from any person or his agent who is, or who appears to be, or the Company has reason to believe is, a citizen or resident of the United States of America or of any territory or possession thereof. United States residents desiring to sell their Rights may do so by executing Form 2 on the Warrants.

DIVIDING WARRANTS

Holders desiring to divide Warrants may return them to National Trust Company, Limited, 510 Burrard Street, Vancouver, British Columbia, with written directions as to the number of Rights to be represented by each new Warrant desired, in ample time for the new Warrants to be issued and returned so that they can be used before 4 P.M. Pacific Daylight Time on the expiration date.

PURCHASE AND SALE OF RIGHTS

Rights may be purchased or sold through the usual investment channels. Rights will be traded on the Vancouver Stock Exchange, initially on a "when issued" basis.

SUBSCRIPTION AND PAYMENT

Subscriptions must be made by executing the subscription agreements on the face of the Warrants and delivering them, with the full subscription price of \$4.00 per share, to National Trust Company, Limited at 510 Burrard Street, Vancouver, British Columbia, before 4 P.M. Pacific Daylight Time on August 31, 1967. Subscriptions will be accepted for full shares only.

Payment for shares subscribed for must be sent to National Trust Company, Limited, 510 Burrard Street, Vancouver, Canada, either in cash or by certified cheque, bank draft or money order drawn to the order of Lornex Mining Corporation Ltd. and payable at par in Vancouver in Canadian funds. No interest will be allowed on payments received.

Subscriptions must reach the offices of National Trust Company, Limited at Vancouver, not later than 4 P.M. Pacific Daylight Time on August 31, 1967. After that time, the Warrants will be void and of no value.

DELIVERY OF SHARE CERTIFICATES

The shares will be issued and certificates delivered as soon after subscription as is practicable.

CORRESPONDENCE

Correspondence with the Company relating to the Rights issue should be addressed to the Secretary, Lornex Mining Corporation Ltd. (N.P.L.), Suite 202, 580 Granville Street, Vancouver 2, British Columbia.

Lornex Mining Corporation Ltd.
(Non-Personal Liability)

SUPPLEMENTAL INFORMATION

EXPLORATION PROGRAMME

Phase I of the Company's exploration programme was completed in October, 1966 and was reported to the shareholders in the Company's last annual report. This phase consisted, generally, of large scale investigation of possible ore bodies by means of trenching, percussion drilling, surface diamond drilling and geophysical surveys. This exploration programme proved sufficiently encouraging to warrant, in the opinion of the Company, a bulk sampling programme designed to check the surface diamond drilling assay results and a pilot plant scale testing of possible ore bodies. The plans and sections of the mineralized zone may be inspected by any shareholder during ordinary business hours of any business day up to August 31, 1967 at the offices of the Company, Suite 202, 580 Granville Street, Vancouver, B.C. or at the offices of Rio Algom Mines Limited, 120 Adelaide Street West, Toronto, Ontario. In addition, results of preliminary metallurgical work have been completed; while they cannot be considered conclusive, such results also are available at the same locations.

Phase II of the exploration programme commenced in November, 1966. It comprises extension of the drilling programme, the sinking of a shaft, approximately 3,000 feet of drifting, a bulk sampling programme and the construction and operation of a 100 ton per day pilot mill.

The purpose of Phase II is to develop information as to ore reserves and grades and the copper and molybdenum recoveries together with engineering and metallurgical data to permit the preparation of preliminary capital and operating cost estimates.

The scope of Phase II as now contemplated is believed to be adequate to permit a determination to be made as to whether a full scale feasibility study is warranted. The Company cannot, however, declare at this time that the scope of this programme will prove to be adequate for the purpose stated and extension of its scope could be necessary. Further, neither the Company nor Rio Algom Mines Limited ("Rio Algom") who have management responsibility for the Phase II programme, can give any representations or warranties that the programme will be carried out to completion or as to the results thereof. The Phase II programme is an exploration programme only and, as such, is subject to the uncertainties of such programmes.

PURPOSE OF RIGHTS ISSUE

The current estimate of the cost of Phase II of the exploration programme as described above, if carried through to completion, is \$5,250,000. Of this sum, approximately \$2,128,000 had been expended to May 31, 1967 and after the exercise by Rio Algom of the last of the options referred to below, approximately \$1,400,000 is available to the Company for expenditure from May 31, 1967 on the programme.

Since, as stated above, Phase II of the programme may be discontinued prior to its completion, no minimum amount of funds is required by the Company. However, should the programme as now constituted be completed, a minimum of approximately \$1,700,000 would be required. On the basis of the Rights being exercised in full, it is expected that the additional funds derived from the sale of shares will be sufficient to defray the balance of the estimated cost of Phase II as now constituted. To this end, the Company has obtained from Rio Algom a firm commitment to subscribe for and purchase the shares represented by any unexercised Rights as more particularly referred to below under the heading "Purchase Agreement". Any funds in excess of those required for the Phase II project will be used by the Company for general corporate purposes which may include further exploration on the Company's properties.

OPTION AGREEMENT

By agreement dated May 1, 1965 between the Company, Rio Algom and Egil H. Lorntzen and A. David Ross, as amended by three letter agreements dated May 1, 1965, July 20, 1965 and September 30, 1965, respectively, between the same parties (which agreement as so amended is hereinafter called the

"Option Agreement"), the Company sold and Rio Algom purchased 100,000 shares of the Company at an aggregate purchase price of \$75,000 and the Company granted to Rio Algom options to purchase an additional 2,300,000 shares of the Company at an aggregate purchase price of \$4,550,000. As at the date hereof, Rio Algom has exercised all of the aforesaid options.

Under the Option Agreement Rio Algom has the right, in its sole discretion, to decide if the mineral claims owned by the Company should be brought into production. If Rio Algom decides to bring the claims into production, Rio Algom shall arrange for such further financing of the Company as Rio Algom may deem advisable for this purpose, using its best efforts to obtain such further financing upon the best available terms. Rio Algom has informed the Company in writing that Rio Algom's participation in the management of the Company and of Phase II of the exploration programme is not to be considered as a decision on the part of Rio Algom to bring the mineral claims into production.

CONTROL OF THE COMPANY

960,000 of the 2,400,000 shares of the Company acquired by Rio Algom under the Option Agreement have been purchased by The Yukon Consolidated Gold Corporation Limited ("Yukon"). As at the date hereof Rio Algom is the beneficial owner of 1,461,892 shares and Yukon is the owner of 960,000 shares in the capital of the Company, representing in the aggregate approximately 60% of the issued and outstanding shares of the Company.

The shares of the Company owned by Rio Algom and Yukon are subject to an agreement (the "Voting Agreement") made as of January 1, 1967 between Rio Algom, Yukon and Rio Tinto Canadian Exploration Limited, which provides that the shares of the Company owned by Rio Algom and Yukon shall be voted jointly so as to provide for continuity of management of the Company.

Each of Rio Algom and Yukon has indicated to the Company in writing that it intends to exercise all of the Rights issued to it.

PURCHASE AGREEMENT

To ensure the availability of sufficient funds to meet the present estimated cost of Phase II of the exploration programme, the Company has entered into an agreement (the "Purchase Agreement") dated July 7, 1967 with Rio Algom whereunder the Company has agreed to allot, issue and sell and Rio Algom has agreed to purchase on September 12, 1967 at a price of \$4.00 per share the number of shares in the capital of the Company represented by the warrants which are not taken up prior to 4.00 P.M. Pacific Daylight Time on August 31, 1967. The Purchase Agreement contains no market-out clause or similar out clause. Rio Algom will not receive any commission or other remuneration in connection with the issue. Legal and other expenses incurred in connection with the issue will be paid by the Company.

Lornex Mining Corporation Ltd.
(Non-Personal Liability)

Balance Sheet as at May 31, 1967

Assets

CURRENT:

Cash.....	\$ 115,534
Accounts receivable.....	33,446
Prepaid expenses.....	4,626
	<u>153,606</u>

BUILDINGS AND EQUIPMENT, at cost.....	1,280,904
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MINING PROPERTIES, at cost:

Mineral claims.....	\$ 383,500	
Payments made under options to purchase mineral claims (Note 1).....	140,085	523,585
	<u> </u>	

OTHER ASSETS AND DEFERRED EXPENDITURES:

Preproduction and development.....	2,147,623	
Incorporation and organization costs.....	2,601	2,150,224
	<u> </u>	<u>\$4,108,319</u>

Liability and Shareholders' Equity

CURRENT:

Accounts payable and accrued liabilities.....	\$ 333,525
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SHARE CAPITAL: (Note 2)

Authorized —

5,000,000 shares, par value 50¢ each.

Issued —

900,000 shares for mining properties..... \$ 450,000

2,118,952 shares for cash..... 1,059,476

1,509,476

Net premium on issued shares..... 1,477,818

2,987,294

Subscription received for shares under option (allotted and issued

July 7, 1967)..... 787,500 3,774,794

\$4,108,319

The accompanying notes are an integral part of this statement.

Lornex Mining Corporation Ltd.
(Non-Personal Liability)

Notes to Balance Sheet as at May 31, 1967

1. OPTIONS TO PURCHASE MINERAL CLAIMS:

'IRIS' — In order to exercise the option to purchase these claims the Company will be required to pay a further \$4,000 in cash on or before August 31, 1967.

'SKEENA purchase' — In order to exercise the option to purchase these claims the Company will be required to pay 5% of the net smelter returns up to \$500,000 with minimum annual payments of \$15,000 to commence on May 31, 1971.

'SKEENA option' — In order to exercise the option to purchase these claims the Company will be required to fulfill work commitments as follows —

\$ 50,000 prior to May 31, 1968 and a further
100,000 prior to May 31, 1969 and a further
150,000 prior to May 31, 1970.
<u>\$300,000</u>

The terms of this option agreement further provide for payment of 5% of the net smelter returns up to \$3,000,000. In the event that the Company does not bring these claims into production prior to May 31, 1972, the Company shall pay the sum of \$2,000 per month until the claims are brought into production or until May 31, 1974, whichever shall be the earlier.

2. SHARE CAPITAL:

Under the terms of an agreement dated May 1, 1965 Rio Algom Mines Limited has purchased 1,400,000 shares of the Company's capital stock for a total consideration of \$2,250,000 and has options to acquire a further 1,000,000 shares for the prices and within the times set forth below —

<u>No. of shares</u>	<u>Per share</u>	<u>On or before</u>	<u>Aggregate purchase price</u>
500,000	\$2.25	March 1, 1968	\$1,125,000
500,000	2.50	September 1, 1968	<u>1,250,000</u>
<u>1,000,000</u>			<u>\$2,375,000</u>

Up to the date of the balance sheet, Rio Algom had subscribed for 350,000 shares of the option due March 1, 1968. On June 20, 1967, Rio Algom subscribed for the remaining 150,000 shares of the option due March 1, 1968. Rio Algom has also undertaken to purchase prior to July 31, 1967 the last option on 500,000 shares of the Company at the price of \$2.50 per share.

The Yukon Consolidated Gold Corporation Limited has been issued 560,000 of the 1,400,000 shares purchased by Rio Algom to May 31, 1967, and will have issued to it a further 400,000 shares of the 1,000,000 shares issued or to be issued prior to July 31, 1967.

3. The balance sheet as at May 31, 1967 and accompanying statement of expenditures to that date are subject to audit and year end adjustments.

Lornex Mining Corporation Ltd.
(Non-Personal Liability)

Statement of Expenditures for Phase I and Phase II and Administration to May 31, 1967

PHASE I — Initial drilling and exploration program:

Plant, buildings and equipment.	\$ 225,044	
Preproduction — exploration, drilling, testing.	<u>967,324</u>	\$1,192,368

PHASE II — Evaluation of ore body:

Plant, buildings and equipment.	\$1,055,860	
Preproduction — drilling and shaft sinking.	701,316	
— operating, engineering and general expenses.	<u>370,742</u>	2,127,918

Preproduction administrative costs.		<u>108,241</u>
TOTAL.		<u><u>\$3,428,527</u></u>

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ANNUAL REPORT FOR YEAR ENDED SEPT. 30,
LORNEX MINING CORPORATION LTD. (N.F.)

LORNEX MINING CORPORATION LTD. (N.P.L.)

The directors are pleased to submit this report on the activities and financial position of the Company for the fiscal year ended September 30, 1967.

OFFICERS

Chairman of the Board	- - - - -	EGIL H. LORNTZSEN
President and Chief Executive Officer	- - - - -	ROBERT D. ARMSTRONG
Vice-President and Director	- - - - -	E. B. GILLANDERS
Treasurer	- - - - -	E. J. TANNER
Secretary	- - - - -	C. WILLIAM M. BURGE

DIRECTORS

GEORGE R. ALBINO, Clarkson	NEIL B. IVORY, Montreal
WILLIAM A. ARBUCKLE, Montreal	EGIL H. LORNTZSEN, Vancouver
ROBERT D. ARMSTRONG, Toronto	A. DAVID ROSS, West Vancouver
WALTER P. ARNOLD, Toronto	J. ARTHUR SADLER, Toronto
C. WILLIAM M. BURGE, West Vancouver	ISAAC SHULMAN, Vancouver
E. B. GILLANDERS, Crescent Beach	

Executive Office

120 Adelaide St. W.
Toronto 1, Ont.

Head Office

580 Granville St.
Vancouver

Project Office

P.O. Box 430
Ashcroft, B.C.

Principal Bankers

Canadian Imperial Bank of Commerce
Vancouver

Solicitors

Fasken & Calvin, Toronto
Clark, Wilson & Company
Vancouver

Auditors

McDonald, Currie & Co.
Vancouver

Registrar and Transfer Agent

National Trust
Vancouver

Shares Listed

Vancouver Stock Exchange

The Annual Meeting

10:30 a.m., Friday, December 1, 1967
Regal Ballroom, Georgia Hotel
Vancouver, British Columbia



Main Lornex area: shaft headframe and open pit to provide test material are in centre; crushing-sampling plant and pilot mill are in left background.



Ore from test pit is dumped into crushing plant in preparation for further treatment in mill seen in background.

Conveyer belt carries crushed ore to pilot mill.

Flotation unit at Lornex pilot mill.





Directors' Report to the Shareholders

ACTIVITIES:

Activities during the year related mainly to the carrying out of Phase II of the assessment programme. This programme was started in November, 1966 after a decision had been reached that results from the preliminary exploration work comprising trenching, surface drilling and geophysical surveys were sufficiently encouraging to warrant a more extensive examination of the mineralized area and its economic potential.

The purpose of the Phase II programme is to develop information as to copper and molybdenum ore reserves and recoveries together with engineering and metallurgical data to permit the preparation of preliminary capital and operating cost estimates. It comprises extension of surface drilling, the sinking of a shaft, approximately 3,000 feet of cross cutting, bulk sampling and the construction and operation of a 100-ton per day pilot mill.

From commencement of Phase II in November, 1966 to September 30, 1967, the work carried out was as follows:

- A total of 57,682 feet of surface diamond drilling was carried out. This foot-

age, together with surface diamond drilling carried out prior to commencement of the current programme, brings the cumulative total of surface diamond drilling to 82 holes and 82,974 feet. In addition, 511 shallow percussion drill holes have been completed representing a total of 90,917 feet. The surface drilling as planned has been completed.

- The shaft was sunk to its planned depth of 550 feet. The station floor for the planned cross cut was established at 497 feet and actual work on the cross cut commenced early in October, 1967.

- The crushing and sampling plant was brought into operation during April as planned and has operated effectively. To September 30, a total of 8,092 tons of material has been crushed.

- A small open pit was developed to provide additional material for metallurgical experimentation in the pilot plant. About 46,800 tons of material comprising oxide ore, sulphide ore, fault gouge material and low grade rock have been stockpiled for this purpose.



- The pilot plant was completed and brought into operation during May. A total of 6,849 tons has been milled to date. Test work is proceeding to determine the most economical processes for recovering copper from the oxide and sulphide ores and molybdenum from the resultant concentrate and to establish the percentages of metal which could be recovered in a commercial scale operation.

- Preliminary engineering studies were carried out to establish tentative locations for processing facilities, for disposal of overburden, waste and tailings and for a townsite.

- Computer analyses were carried out on a series of some 50 alternative open pit designs ranging in capacity from 5,000 tons per day to 70,000 tons per day. The purpose of these analyses is to provide preliminary general information as to overburden and waste to ore ratios and mill head grades at a range of volumes.

This programme is proceeding on schedule and within the cost estimates. Expenditures on this activity to September 30, 1967 totalled \$3,100,693. The cost of Phase II as now envisaged is estimated at \$5,250,000.

The shaft and sample plant is in process of being winterized to permit processing of the bulk material obtained from the cross cut without interruption. It is currently expected that the pilot plant grinding and metallurgical tests will be completed by mid December and that this unit will be shut down for the winter at that time.

CONSULTANTS:

Extensive use is being made of consultants in planning and carrying out Phase II work in order to

ensure that the programme's scope is maintained at an adequate but not excessive level and to verify that the sampling and testing methods employed will produce totally valid results. A further purpose is to facilitate the development of data which will be required if it is considered that a full scale feasibility study should be undertaken.

In its capacity as manager, Rio Algom Mines Limited supplies full time managerial and supervisory personnel at the site and in the Vancouver office. Rio Algom also provides geological and metallurgical consultation and direction from its Toronto and Elliot Lake offices. Through its association with Rio Tinto-Zinc Corporation Limited, Rio Algom has also made available to Lornex the consulting advice of specialists in geology, metallurgy, open pit design and operation and smelter economics.

Behre Dolbear & Company Inc. and Canadian Bechtel Limited were retained in April as geological and metallurgical processing consultants respectively. Behre Dolbear is a New York City firm with an international reputation in projects of this type. The Canadian Bechtel operations for the Lornex project are carried out by members of the San Francisco parent company who have had senior responsibility in successful major projects carried out by Rio Tinto in other countries.

FINANCE AND CONTROL:

A rights issue was completed on August 31, 1967. This involved the issuance of rights to shareholders of record at July 31, 1967 to subscribe for one share of Lornex stock for each eight shares then held at a price of \$4.00 per share. Rio Algom Mines Limited and The Yukon Consolidated Gold Corporation Limited each committed to exercise in full the

LORNEX MINING CORPORATION LTD. (N.P.L.)

rights on shares then held and Rio Algom agreed to purchase all rights not exercised.

The rights issue was successful. The results were as follows:

Number of shares outstanding prior to rights issue	4,018,952
Number of shares offered under rights issue	502,369
Rights exercised by Rio Algom	182,736
Rights exercised by Yukon	120,000
	302,736
Rights exercised by others	198,321
	501,057
Purchased by Rio Algom pursuant to Purchase Agreement	1,312
	502,369
Gross proceeds of rights issue	\$2,009,477
Expenses of issue	13,146
Net proceeds of issue	\$1,996,331

There were no share options outstanding at September 30, 1967.

The total of 2,725,948 shares held by Rio Algom and Yukon at September 30, 1967 represented 60.3% of the total outstanding shares of Lornex. Rio Algom and Yukon have entered into an agreement relating to certain of their Lornex shareholdings which effectively join their shareholdings in order to maintain voting control of Lornex and to provide continuity of management by Rio Algom until at least December 31, 1972.

FUTURE PLANS:

The Lornex property contains a large low grade copper deposit with some molybdenum values. Gravel overburden averages approximately 145 feet in thickness. The limited metallurgical tests completed to date indicate that recoveries of copper and

molybdenum would be satisfactory. Current indications are that open pit mining on a very large scale will be necessary if the deposit is to be mined economically.

The purpose of the Phase II programme described above is to define with precision the factors involved in the determination of economic viability. The completion of the exploratory shaft has provided access to approximately 15% of the bulk sample now scheduled for examination. Examination of the additional bulk samples to be obtained from the cross cutting operation is expected to be completed by the spring of 1968. It is now considered that results of the examination of this material together with finalization of the tests of milling and metallurgical recoveries and processes and the preliminary capital and operating costs estimates now in preparation will permit a judgment to be made as to viability in the spring of 1968. If it then appears probable that the project is economically viable, a full scale feasibility project will be undertaken in collaboration with consultants.

Under its agreement with the Company, Rio Algom has the right, at its sole discretion, to decide if the project is viable. If Rio Algom decides that the mineral claims should be brought into production, it is obligated to use its best efforts to arrange such further financing as may be required for this purpose upon the best available terms.

On behalf of the Board

R. D. ARMSTRONG

President

October 13, 1967.



LORNEX MINING CORPORATION LTD. (N.P.L.)

Auditors' Report

To the Shareholders of
Lornex Mining Corporation Ltd. (N.P.L.):

We have examined the balance sheet of Lornex Mining Corporation Ltd. (N.P.L.) as at September 30, 1967, and the statements of deferred exploration, development and administration and source and disposition of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the company as at September 30, 1967, and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants.

Vancouver, B.C.
November 6, 1967

LORNEX MINING CORPORATION LTD. (N.P.L.)

(Incorporated under the laws of British Columbia)

BALANCE SHEET AS AT SEPTEMBER 30, 1967

(with comparative figures for 1966)

Assets:

CURRENT:

	1967	1966
Cash	\$ 207,194	\$ 247,196
Short term investments at cost, and deposits	2,506,163	
Accounts receivable	38,209	
	<u>2,751,566</u>	<u>247,196</u>

FIXED (note 1):

Plant and equipment, at cost	1,319,518	247,524
Mining properties, at cost (note 2)	471,000	462,000
	<u>1,790,518</u>	<u>709,524</u>

OTHER:

Deferred exploration, development and administration, at cost (notes 1 and 3)	3,180,761	1,156,180
Incorporation and organization costs	2,601	2,601
	<u>3,183,362</u>	<u>1,158,781</u>
	<u>\$7,725,446</u>	<u>\$2,115,501</u>

Liabilities and Shareholders' Equity:

CURRENT:

Accounts payable and accrued liabilities	\$ 269,262	\$ 101,859
Due to Rio Algom Mines Limited	78,387	60,647
Due to Rio Tinto Canadian Exploration Limited	6,027	140,702
	<u>353,676</u>	<u>303,208</u>

SHAREHOLDERS' EQUITY (note 4):

Capital stock —		
Authorized:		
5,000,000 shares with a par value of 50¢ each		
Issued:		
900,000 shares for mining properties	450,000	450,000
3,621,321 shares for cash (1,418,952 shares in 1966)	1,810,660	709,476
4,521,321 (2,318,952 shares in 1966)	<u>2,260,660</u>	<u>1,159,476</u>
Subscription received for shares under option		175,000
	<u>2,260,660</u>	<u>1,334,476</u>
Premium less discount on shares issued for cash	5,111,110	477,817
	<u>7,371,770</u>	<u>1,812,293</u>
	<u>\$7,725,446</u>	<u>\$2,115,501</u>

Approved on behalf of the Board:

W. A. ARBUCKLE, Director.

R. D. ARMSTRONG, Director.

The accompanying notes are an integral part of this statement and should be read in conjunction therewith.

LORNEX MINING CORPORATION LTD. (N.P.L.)

STATEMENT OF DEFERRED EXPLORATION, DEVELOPMENT AND ADMINISTRATION

FOR THE YEAR ENDED SEPTEMBER 30, 1967

Balance, September 30, 1966		\$1,156,180
Add expenditures during the year —		
Exploration and development:		
Surface drilling and exploration	\$ 698,784	
Shaft sinking and lateral development	322,968	
Pilot plant operation	207,806	
Open pit operation	78,870	
Technical and economic studies	256,952	
Camp, cookhouse, utilities and vehicles	150,809	
Miscellaneous on site costs	53,043	
	<hr/> 1,769,232	
General and administration	168,060	
Vancouver office and corporate expenses (including share- holders' information and public relations \$43,294, share issue expense \$13,146 and remuneration to a director of \$9,200)	87,289	2,024,581
	<hr/>	<hr/>
Balance, September 30, 1967		\$3,180,761

The accompanying notes are an integral part of this statement
and should be read in conjunction therewith.

LORNEX MINING CORPORATION LTD. (N.P.L.)

STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1967

SOURCE OF FUNDS:	1967	1966
Issue of capital stock —		
For cash	\$5,559,477	\$ 875,000
For mining properties		37,500
Subscription received for shares under option		112,500
	<u>5,559,477</u>	<u>1,025,000</u>
DISPOSITION OF FUNDS:		
Expenditures for plant and equipment	1,071,994	129,825
Expenditures for deferred exploration, development and administration	2,024,581	935,629
Payments made under options to purchase mining properties	9,000	38,500
	<u>3,105,575</u>	<u>1,103,954</u>
INCREASE OR (DECREASE) in working capital	<u>\$2,453,902</u>	<u>\$ (78,954)</u>

The accompanying notes are an integral part of this statement
and should be read in conjunction therewith.

LORNEX MINING CORPORATION LTD. (N.P.L.)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1967

1. The amount shown for fixed assets and deferred exploration, development and administration represent costs to date and are not intended to reflect present or future values.
2. Mining properties were acquired for the issue of 875,000 shares of capital stock valued at \$437,500 together with \$33,500 cash (of which \$9,000 was paid during the year). Mining properties for which 25,000 shares of capital stock were issued valued at \$12,500 were abandoned and the cost thereof has been charged to exploration, development and administration.
3. To maintain the option which the company holds in respect of the "Skeena property", the company is required to fulfil work commitments of \$300,000 consisting of \$50,000 prior to May 31, 1968, a further \$100,000 prior to May 31, 1969 and a further \$150,000 prior to May 31, 1970. The terms of this option agreement further provide for payment of 5% of the net smelter returns up to \$3,000,000. In the event that the company does not bring these claims into production prior to May 31, 1972, the company shall pay the sum of \$2,000 per month until the claims are brought into production or until May 31, 1974, whichever shall be the earlier.
4. During the year 2,202,369 shares were issued for \$5,734,477 cash of which 1,700,000 shares were issued on the exercise of options granted to Rio Algom Mines Limited for \$3,725,000 and 502,369 shares were issued for \$2,009,477 under the terms of a rights offering.

The Yukon Consolidated Gold Corporation Limited has been issued 680,000 of the 1,700,000 shares issued on the exercise of options by Rio Algom Mines Limited during the year.

5. Under the terms of an agreement dated May 17, 1965 the company agreed that if certain mining properties were brought into production it would pay Skeena Silver Mines Limited 5% of the net smelter returns up to \$500,000 with minimum annual payments of \$15,000 to commence on May 31, 1971.
6. At September 30, 1967 estimated cost to complete the phase II program as now envisaged is approximately \$2,150,000 (committed approximately \$274,000).

LORNEX MINING CORPORATION LTD. (N.P.L.)

STATISTICAL SUMMARY OF EXPENDITURES

TO SEPTEMBER 30, 1967

PHASE I — Initial drilling and exploration program:

Plant, buildings and equipment	\$ 136,561	
Exploration — trenching, surface drilling and geophysical surveys	<u>1,055,807</u>	\$1,192,368

PHASE II — Evaluation of ore body:

Plant, buildings and equipment	1,182,957	
Exploration — drilling and shaft sinking	974,971	
— operating, engineering and general expenses	<u>942,765</u>	3,100,693

General administrative and corporate costs		140,443
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Work performed under options to purchase mineral claims		<u>66,775</u>
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		<u><u>\$4,500,279</u></u>
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Classified in Balance Sheet as:

Plant, Buildings and Equipment	\$1,319,518
Exploration and Development Expenditures	<u>3,180,761</u>
	<u><u>\$4,500,279</u></u>

